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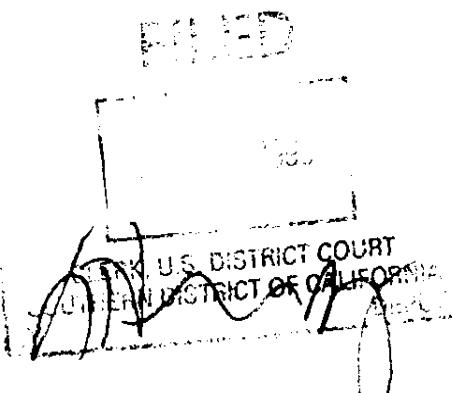
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3:96-CV-01307 TELIOS PHARMACEUTICA V. MERCK KGAA

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18 Counterclaimants MERCK KGaA, THE
19 SCRIPPS RESEARCH INSTITUTE and
20 DR. DAVID A. CHERESH

21 17 UNITED STATES DISTRICT COURT
22 18 SOUTHERN DISTRICT OF CALIFORNIA

23 19 ORIGINAL

24 20 INTEGRA LIFESCIENCES I, LTD., a
25 Delaware corporation, and THE
26 BURNHAM INSTITUTE, a California
27 nonprofit corporation,

28 21 Plaintiffs,

22 v.

23 23 MERCK KGaA, a German
24 corporation, THE SCRIPPS
25 RESEARCH INSTITUTE, a
26 California nonprofit
27 corporation, DR. DAVID A.
28 CHERESH, a California citizen,

Defendants.

29 27 AND RELATED COUNTERCLAIMS
30 28 No. 96CV-1307 TW (AJB)

31 29 REPLY IN SUPPORT OF
32 DEFENDANTS' REQUEST FOR
33 JUDICIAL NOTICE OF GERMAN
34 PATENT LAW

35 30 Hearing Off Calendar per
36 Order dated August 25,
37 1999

1 INTRODUCTION

2 Plaintiffs do not contend that Defendants' Request for
 3 Judicial Notice misstates the law. To the contrary.
 4 Plaintiffs tacitly concede that German law does, in fact,
 5 exempt scientific research from claims for patent
 6 infringement. Instead, Plaintiffs argue the Court should
 7 refuse to take judicial notice of the German exemption because
 8 Defendants' Request was untimely, the exemption is not
 9 relevant to any issue the jury will decide, and learning of
 10 the exemption will be too "confusing" to the jury.

11 Plaintiffs' arguments do not hold up. The importance of
 12 the German exemption became apparent when Plaintiffs' damages
 13 expert disclosed for the first time in his late April 1999
 14 deposition that his \$20+ million damages calculation is based
 15 on an assumption that Defendants could not have performed the
 16 accused research in Germany without incurring liability for
 17 patent infringement. In fact, that assumption is wrong.
 18 Defendants could have performed their research in Germany--
 19 where Defendant Merck is located--without infringing anyone's
 20 patents, because German law exempts research activity from
 21 infringement claims. Thus, to fully evaluate Plaintiffs'
 22 damages theory, the jury needs to know of the German research
 23 exemption. The way to do that is for the Court to take
 24 judicial notice of the law and instruct the jury on it.

25 None of Plaintiffs' excuses for trying to prevent the
 26 jury from learning of the exemption has merit. Defendants'
 27 Request was timely; it complies with Rule 44.1; and the German
 28 exemption is highly relevant to a key issue in the case.

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1 I.
2

3 THE GERMAN RESEARCH EXEMPTION DIRECTLY REBUTS
4 PLAINTIFFS' DAMAGES ANALYSIS.
5

6 Plaintiffs urge the Court to refuse judicial notice of
7 the German exemption because they claim it is "collateral to
8 the real issues" here. Plaintiffs' Opposition to Defendants'
9 Request for Judicial Notice ("Pl. Opp.") at 5:17-18.

10 Nothing could be further from the truth. One of the
11 "real issues" in the case is damages. Plaintiffs' expert says
12 that he arrived at his \$20+ million damages number based on an
13 assumption--imposed on him by Plaintiffs' counsel--that
14 Defendant could not have performed the accused research in
15 Germany without infringing someone's patents. As a result,
16 Plaintiffs' damages theory is based on the assumption that
17 Merck's "next-best alternative" to the alleged infringement
18 would have been to pursue new mimetic research in the U.S.
19 (which Plaintiffs' expert claims would have cost Defendants
more than \$20 million) instead of simply performing the
peptide research in Germany--a very low-cost alternative.

20 The German research exemption shows that Plaintiffs'
21 assumptions are wrong, and that Plaintiffs' damages expert
22 therefore relied on a false premise. There is nothing
23 "collateral" about destroying the credibility of Plaintiffs'
24 damage expert and exposing the inaccuracy of his opinion.

25 II.
26

27 DEFENDANTS' REQUEST FOR JUDICIAL NOTICE IS NOT
28 "UNTIMELY."

Plaintiffs' suggestion that Defendants' Request is

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1 "untimely" is baseless. The purpose of Rule 44.1 notice is
 2 "[t]o avoid unfairly surprising opposing parties." Stuart v.
 3 United States, 813 F.2d 243, 251 (9th Cir. 1987), rev'd on
 4 other grounds, 489 U.S. 353 (1989); see Request at 2.
 5 Plaintiffs cannot claim they were "unfairly surprised" to
 6 learn the German exemption is relevant, since it was their own
 7 assumption--which they instructed their damages witness to
 8 build into his damages calculation--that made it relevant.¹

9 Plaintiffs argue that Defendants' Request is "untimely"
 10 because Defendants did not raise the German exemption "at any
 11 point during the course of the litigation" (Request at 1:3-6)
 12 and Plaintiffs therefore have been "prejudiced" because they
 13 had no "opportunity to engage their own expert" on the
 14 subject. Id. at 1:24-25. Plaintiffs are wrong on both points.

15 Defendants' expert, Bruce Den Uyl, testified in his
 16 deposition to his assumption that Defendants did have the
 17 option of conducting their research in Germany. Mr. Den Uyl
 18 also raised the German alternative in his expert report
 19 rebutting Mr. Anderson's opinion testimony. Clearly, the
 20 German alternative was a subject in expert discovery.

21 Moreover, Plaintiffs have had months to get an expert
 22 on the subject. The minute Plaintiffs told their expert,
 23 early this year, to assume Defendants could not have done

24

25 ¹ Plaintiffs admit that "[t]he only reason German law
 26 became an 'issue' in this case is because Defendants sought to
rebut Plaintiffs' damage analysis by arguing that they could
 27 have carried out their research in Europe where German patent
 28 law allegedly exempts such research." Pl. Opp. at 4:18-22
 (emphasis added).

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1 their research in Germany without infringing patents,
2 Plaintiffs knew German patent law would be relevant. If they
3 had genuinely wanted an expert to support that assumption,
4 they had every opportunity to get one. Having chosen to do
5 nothing to support their assumption, they cannot now claim to be
6 "prejudiced" by their own inaction. If Plaintiffs are
7 permitted to seek \$20 million based on an assumption about
8 what German patent law precludes, Defendants must be permitted
9 to put facts before the jury--including what German law
10 actually provides--that prove Plaintiffs' assumption is false.

11 III.

12 THIS COURT CAN PROPERLY TAKE JUDICIAL NOTICE OF
13 THE GERMAN RESEARCH EXEMPTION.

14 Having failed to make any credible argument on
15 "relevance" and "timeliness," Plaintiffs resort to a series of
16 scatter-shot arguments. None of them has merit.

17 A. No Expert Testimony Is Needed Either To Tell The Court
18 What The Law Is Or To Explain How It Should Be Applied.

19 Plaintiffs argue this Court should not take judicial
20 notice of the German exemption because Defendants do not offer
21 an expert to tell the Court what the law is or to explain how
22 the law relates to the facts. Both arguments are wrong.

23 First, a request for judicial notice does not require
24 expert testimony. See Fed. R. Civ. P. 44.1 ("in determining
25 foreign law, [the court] may consider any relevant material or
26 source."). See In Re Trans Chem. Ltd., 978 F. Supp. 266, 275
27 (S.D. Tex. 1997), aff'd, 161 F.3d 314 (5th Cir. 1998) (expert
28 testimony is not a "necessity in establishing foreign law";

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1 court may rely on "foreign case law decisions, treatises, and
 2 learned articles"); Request at 1-4. Defendants' Request
 3 established the existence of the German exemption with
 4 treatises, articles and testimony of their employees. That is
 5 more than sufficient, particularly since Plaintiffs do not
 6 dispute the substance of the law. See Universe Sales Co. v.
 7 Silver Castle, 51 U.S.P.Q.2d 1197, 1199 (9th Cir. 1999) (error
 8 for court to disregard unrebutted showing of relevant foreign
 9 law.)

10 Second, the Court needs no expert to tell it what the
 11 law is. That is the Court's role.² Pittway Corp. v. United
 12 States, 88 F.3d 501, 504 (7th Cir. 1996) ("determination of
 13 foreign law is an issue of law for the court").

14 Third, the effect of the German law on Plaintiffs'
 15 damages assumptions is so clear that no expert is needed to
 16 help the jury understand it. See Fed. R. Evid. 702 (expert
 17 testimony proper where it "will assist the trier of fact to
 18 understand the evidence"). Moreover, Defendants will
 19 introduce testimony by Defendants' employees, including Dr.
 20 Arno Hartmann (who worked for nine years in Merck's in-house
 21 patent and licensing departments), and researchers Dr. Alfred
 22 Jonczyk and Dr. Simon Goodman concerning the effect of the
 23

24 ² It is an abrupt about-face for Plaintiffs now to insist
 25 that Defendants need an expert to tell the Court what the law
 26 is. Plaintiffs argued strenuously in other motions in limine
 27 that experts could not properly "define the law." See Specht
v. Jensen, 853 F.2d 805, 810 (10th Cir. 1988) (cited in
 Plaintiffs' Motion in Limine No. 16 at 3, 5 and in
 Plaintiffs' Opposition to Defendant's Motion in Limine No. 1
 at 2).

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1 German exemption. These witnesses will explain Merck's
 2 understanding that German law exempts scientific research from
 3 infringement claims--an understanding that is consistent with
 4 the fact that Merck has never been sued (or even threatened
 5 with suit) as a result of its research in Germany, including
 6 experiments similar to the accused experiments here.³

7 B. Defendants' Request Only Asks The Court To Take
Judicial Notice Of What German Law Is; It Does Not Ask
The Court To Do Any Fact Finding.

9 Plaintiffs argue that Defendants' Request asks the
 10 Court to "take judicial notice . . . of how [the] law would be
 11 applied, if at all, to the accused experiments in this case."
 12 Pl. Opp. at 2:14-17. Thus, Plaintiffs suggest that Defendants
 13 "demand" "fact finding" by the Court. *Id.* at 3:12-14.

14 That is false. Defendants' Proposed Order asks the

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16 ³ Plaintiffs do not argue that they did not have a full
 17 opportunity to depose Dr. Goodman on this issue. Although
 18 they try to suggest that Defendants prevented them from
 19 deposing Dr. Hartmann on the subject (Pl. Opp. at 1:8-12),
 20 that is false. Plaintiffs deposed Dr. Hartmann only as a
 21 Rule 30(b)(6) witness, and only on the very narrow subject of
 22 "the licensing of patented composition of matter or methods
 23 containing RGD peptides"--one of two Rule 30(b)(6) depositions
 24 permitted by Court order. See Order Granting In Part and
 25 Denying In Part Plaintiffs' Motion to Compel Deposition of
 26 Merck KGaA Pursuant to Rule 30(b)(6) filed February 16, 1999
 27 at 11:22-24. Thus, when Plaintiffs' counsel asked a single
 28 question about Dr. Hartmann's then-present understanding of
 the experimental use exemption, Defendants properly objected
 that (1) it exceeded the scope of the 30(b)(6) deposition
 permitted by the Court; and (2) to the extent it required
 disclosure of communications with trial counsel, it also
 impinged upon the attorney-client privilege. Plaintiffs could
 have deposed Dr. Hartmann outside the Rule 30(b)(6) context
 and could have asked Dr. Hartmann his understanding of the
 German exception apart from his conversations with counsel,
 but Plaintiffs chose not to do so. Thus, Plaintiffs have only
 themselves to blame for their lack of discovery from
 Dr. Hartmann on this subject.

1 Court only to take "judicial notice that German patent law
2 includes an exemption for research." Proposed Order at 1:9-
3 10.⁴ It seeks no finding of fact. It will be up to the jury
4 to decide the facts, including the impact of the German
5 exemption on Plaintiffs' faulty damage assumptions.

6 C. Whether Merck Had The Technical Ability To Perform The
Research In Germany Is A Fact Question For The Jury.
7

8 Plaintiffs argue the Court should not take judicial
9 notice of the German exemption because they claim one of
10 Merck's scientists testified that "Merck lacked the expertise
11 necessary to perform those infringing experiments" in Germany.
12 Pl. Opp. at 5:4-8. There are two flaws in this argument.

13 First, it is false. In truth, Dr. Jonczyk stated only
14 that prior to 1992 (three years before Plaintiffs contend the
15 hypothetical license negotiation would have taken place),
16 Merck was not performing cell adhesion and av β 3 binding tests
17 in Germany. Beckwith Decl. Ex. B (Jonczyk Depo.) at 46-47.
18 On the very same page of the transcript, however, Dr. Jonczyk
19 made clear that Merck later implemented the research at its
20 facilities in Germany. Id.

21 Second, this argument is irrelevant to Defendants'
22 Request. Whether the research could have been moved to
23 Germany depends on (1) what the German law is; and (2) whether

24
25 ⁴ We believe it would be even clearer for the order to
26 state that "[t]his Court takes judicial notice that, under
27 German patent law, research activities are exempt from claims
28 for patent infringement." Accordingly, Defendants submit a
Revised Proposed Order reflecting this change. The substance
of the Revised Order, however, is no different from the
original.

1 Merck had the technical ability to do the research there. The
 2 first issue is the legal question the Court is asked to decide
 3 in Defendants' Request. The second question is a factual one,
 4 and if Plaintiffs genuinely dispute it, it is for the jury to
 5 decide. Any factual dispute on that issue has no bearing on
 6 whether judicial notice of the German law is appropriate.

7 D. European Patents Held By Third Parties Are Not At Issue
 8 In This Lawsuit And Have Nothing To Do With Defendants'
Request For Judicial Notice.

9 Plaintiffs urge the Court to refuse judicial notice of
 10 the German exemption because "[t]here is no evidence of the
 11 patents in force in Europe which could block Defendants'
 12 efforts." Pl. Opp. at 5:23-24. This misses the point.

13 The German research exemption is relevant because it
 14 exempts research conducted in Germany from claims of
 15 infringement by any patentholder. Thus, neither Plaintiffs
 16 nor any other patent holder could have prevented Defendants
 17 from doing their research in Germany. These "other patents"--
 18 which Plaintiffs have never identified, either in their
 19 Opposition or in discovery--therefore are irrelevant to
 20 whether this Court should take judicial notice of the law.⁵

21 E. Taking Judicial Notice of Relevant German Law In No Way
Impairs Plaintiffs' Right To A Jury Trial.

22 Plaintiffs make the argument that taking judicial

24 ⁵ In any event, Plaintiffs' suggestion that the jury will
 25 have to decide "whether Defendants would infringe the patents
 26 of any of the number of possible parties under European law"
 27 (Pl. Opp. at 4:26-27) is just plain wrong. "European patents"
 28 and "patents of others" are not at issue in this lawsuit.
 Only Plaintiffs' United States patents--and only the allegedly
 infringing activity in the United States--are at issue, or
 could be at issue.

1 notice of a relevant German law will deprive Plaintiffs of
2 their right to a jury trial. Pl. Opp. at 2:23-26.

3 Plaintiffs have a right to have a jury decide whether
4 Defendants' research activities in the United States infringed
5 their patents. That is the issue here, and Plaintiffs will
6 have a jury trial on it. Plaintiffs have no right--
7 constitutional or otherwise--to have a jury decide what the
8 law is. That is the Court's role. By taking judicial notice
9 of a German research exemption that is relevant to rebut
10 Plaintiffs' damages assumption, this Court will in no way
11 impair Plaintiffs' right to have the jury decide all disputed
12 facts regarding their infringement and damages claims.⁶

13 IV.

14 THE COURT CANNOT EXCLUDE THIS RELEVANT LAW
15 UNDER RULE 403.

16 Plaintiffs suggest the Court should refuse judicial
17 notice of the German exemption under Rule 403 because it would
18 be too confusing to the jurors. Pl. Opp. at 4-5. This
19 amounts to an assertion that the Court should exclude evidence
20 that favors Defendants. Rule 403 does not support the one-
21 sided trial Plaintiffs seek.

22 Plaintiffs cite no authority for the proposition that
23 Rule 403 can be used to prevent the jury from considering
24 relevant law, as opposed to relevant facts. But even if it

25 ⁶ Plaintiffs' objection that the German exemption would give
26 Defendants a "'free pass' from any claim of patent
27 infringement" (Pl. Opp. 5:27-28) only means that Plaintiffs do
28 not like the German law. But that is no reason for this Court
to ignore it or to refuse to take judicial notice of it.

1 could, Rule 403 permits a court to exclude relevant evidence
2 only where the risk of confusion and prejudice are so great
3 that they "substantially outweigh[]" the probative value of
4 the evidence. Fed. R. Evid. 403; see United States v. Mende,
5 43 F.3d 1298, 1302 (9th Cir. 1995) (Rule 403 "is an
6 extraordinary remedy, to be used sparingly" (citation
7 omitted)). Plaintiffs do not--and cannot--show this standard
8 is met. There is nothing confusing about the German
9 exemption; it is simple and easy to understand. There is no
10 reason to believe the jury would not be able to properly
11 consider it in reaching their decision about damages. And
12 there is no question the law is highly relevant. Under these
13 circumstances, there is no basis for excluding this relevant
14 law under Rule 403.

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15 CONCLUSION

16 For all these reasons, Defendants' Request For Judicial
17 Notice should be granted.

18 DATED: September 10, 1999

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26 WD 090999/F-1178701:B201/32/1706561/v9

27 28 96CV-1307 TW (AJB)